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THE UNITED NATIONS DEVELOPMENT FUND FOR WOMEN

EXECUTIVE BOARD DECISION 96/43

SUMMARY

In accordance with Executive Board decision 96/43, the present paper contains a review of the validity of the partial funding system and its applicability to the United Nations Development Fund for Women (UNIFEM). In addition, it presents a brief description of full and partial funding modalities for determining programme approval levels. It also includes a proposal that the Board may wish to consider to establish a modified partial funding system for UNIFEM which would allow the Fund to rebuild its programme and provide for larger programmes of longer duration that can have a more sustained impact within the Fund's sub-programme areas.

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I. INTRODUCTION

1. The present paper has been prepared in response to Executive Board decision 96/43, in which the Board requested, inter alia, that a proposal for setting programme approval levels for UNIFEM be provided to the Board at its first regular session in 1997. The paper presents a brief review of the concepts inherent in full and partial funding modalities for setting these levels and of the previous partial funding systems used by UNIFEM. It then presents, for the consideration of the Board, a revised methodology for determining approval levels and an associated operational reserve level under a partial funding modality, consistent with the present resource situation of UNIFEM. This methodology, which has been developed in full consultation with the Division of Finance (DOF) of the United Nations Development Programme (UNDP), will allow UNIFEM to meet administrative costs and resume normal multi-year programming in 1997 at a level consistent with its income estimates.

II. FULL FUNDING SYSTEM

2. Within the UNDP family of special funds, both full and partial funding systems are used to set programme approval levels. The full approval system, which is used by the Office to Combat Desertification and Drought and the Revolving Fund for Natural Resources Exploration, requires that all programming activities be funded entirely from liquidity available at the time of approval of projects and programmes. Such resources must remain in liquid investment until full disbursement is achieved. Hence, if project or programme expenditures are limited to the budgets originally established, risk of overspending income received is limited to cases where expenditures exceed the budgeted amount. There is currently no requirement to establish an operational reserve under a full funding system.

III. PARTIAL FUNDING SYSTEM

3. Under a partial funding system, a fund is authorized to approve programme activities against anticipated income in excess of actual liquidity. This allows a project to be funded from resources mobilized during the life of the project. A partial funding system is now in use by the United Nations Capital Development Fund. A partial funding system was established for UNIFEM pursuant to Governing Council decision 88/42. In 1989, DOF commissioned the firm Deloitte and Touche to review, inter alia, the implementation of the partial funding system approved for UNIFEM in Governing Council decision 88/42. On the basis of this study, the UNIFEM partial funding methodology was modified by the Council in its decision 90/42. This system remained in force until 1995.

4. The original partial funding system approved in 1988 set maximum total programme funding levels during a given year equal to the balance of resources carried over from the previous year plus two years of future income, minus ongoing project budgets. Future income was forecasted to be equal to the income received during the previous year. An operational reserve was set to cover

about one year of project expenditures, which were estimated at 45 per cent of total project budgets in present and future years.

5. The 1990 study by Deloitte and Touche stated that the decision to undertake a partial funding system of determining programme approval levels must be based on the reliability of future income, which is directly related to the degree of dependency on a few large donors. Income levels derived from a broad donor base, where each donor provides proportionately less, are thereby less vulnerable to overall fluctuations should contributions by any one donor change. Likewise, the narrower the donor base, the more likely that overall income levels will fluctuate widely, either up or down, as the contributions of individual donors change. An operational reserve held in liquid investment that cannot be programmed is the primary tool to protect a fund against downward fluctuations, enabling it to meet its project commitments if income levels decline.

6. As in the case of UNDP, the UNIFEM operational reserve is established to cover the following situations:

(a) Downward fluctuations or shortfalls in reserves;

(b) Uneven cash flows;

(c) Increases in actual costs as compared to planning estimates or fluctuations in delivery;

(d) Other contingencies that result in a loss of resources for which UNDP has made commitments for programming (UNDP Financial Rules and Regulations, Regulation 12.2).

7. The study by Deloitte and Touche recommended, inter alia: (a) a more complex set of calculations with regard to funds availability and reserve, using a sliding scale of percentages applied to future annual project budgets and (b) differentiated coefficients to apply to commitments in ongoing projects, and to new projects. The reserve was to be recalculated twice a year. The estimate of the availability of funds for new programmes was based on future income derived from a regression analysis, minus outstanding programme commitments and administrative costs.

8. The new model also increased the required level of the operational reserve to about 60 per cent of total project budgets rather than the level of 45 per cent based on the concept of total anticipated expenditure used in the past.

IV. CHARACTERISTICS OF THE UNIFEM FINANCIAL SITUATION RELEVANT TO DETERMINING APPROPRIATE PROGRAMMING LEVELS

9. A partial funding system of setting programme approval levels for UNIFEM was adopted at a time when the Fund had built up relatively large cash balances that had not been programmed and when income levels were assessed to be stable, with a good potential for increase. While the former condition is no longer the case, income levels are relatively constant with potential for growth; however, the overall downward trend in development cooperation levels cannot be discounted in assessing potential income in the case of UNIFEM.

10. The need for a partial funding system for UNIFEM is even greater than in the past. It is estimated at the time of writing the present report that UNIFEM will carry forward a cash balance of only $0.8 million from 1996 to 1997, not including the operational reserve established at $3 million in late 1996. Under a full funding modality, UNIFEM would be unable to initiate any new activities in 1997 until such time as contributions are actually received. The challenge in this situation, then, is to develop a system that is conservative yet allows partial programming in advance of receipt of all of the funds required. Such a system must be developed with the following issues in mind:

(a) Diversity of donor base and consequent vulnerability to income fluctuation. Over the last three years, the donor base situation of UNIFEM is such that 31 per cent of the income received originated from one donor; 51 per cent from the 3 largest donors; and 75 per cent from the 6 largest donors. Its vulnerability to income fluctuation is, therefore, very high, making a standard partial funding approach inappropriate;

(b) Reliability of pledges and short-term income estimates as predictors of actual income. Recent experience of UNIFEM has shown that income can be estimated with a high degree of accuracy based on the information received during the annual pledging conference and direct contacts with donors (see table). There is, therefore, limited risk in approving project expenditures during the upcoming year based on that estimate.

Actual income as a percentage of estimated income

Year	Pledge ($ millions)	Received ($ millions)	Percentage
1991	9.4	10.6	112.08
1992	8.4	9.9	117.09
1993	11.3	9.9	7.06
1994	10.1	9.8	97.00
1995[a]	11.5	11.5	100.00

[a] This does not include $3.5 million in extraordinary contributions provided in response to the financial situation of UNIFEM in that year.

(c) Need to maintain an acceptable level of activity in programme countries. The demand for UNIFEM support in programme countries must be met as fully as possible, within the parameters of sound financial management. This implies a level of programme funding that is only slightly less than the resources available for this purpose. A build-up of cash reserves apart from an operational reserve is not to the advantage of UNIFEM programme partners;

(d) Need to programme on a multi-year basis. Programme effectiveness is increased by the ability of UNIFEM to develop programmes of a duration of up to three years since this provides for larger programmes of longer duration that can have a more sustained impact within the UNIFEM sub-programme areas;

(e) Actual expenditures are consistently less than approved budgets. Based on current experience, the assessment of UNIFEM management is that actual expenditure will be about 80 per cent of the project budgets for a given year (see annex);

(f) Purposes of operational reserve. Under low cash balances, the operational reserve would need to serve mainly as a buffer against (i) income level fluctuations from year to year and (ii) liquidity fluctuations from month to month, given irregular income flows throughout the year.

V. PROPOSED PARTIAL FUNDING SYSTEM

11. In consideration of the above, it is proposed that UNIFEM adopt a modified partial funding modality to determine its programme approval levels and associated operational reserve balance. The following variables would be included in the formulae to determine programme approval and operational reserve levels:

(a) Estimated income to general resources, calculated on the basis of the pledging conference results and direct consultation with donors (I);

(b) Balance of general resources carried over from the previous year (B);

(c) Administrative budget. The estimate of the next three years will be by default equal to three times the current year. UNIFEM management will submit any adjustments from that estimate to UNDP for approval (AB);

(d) Budgets of ongoing projects rephased from previous years into the present year, plus budgets of ongoing projects for the year in question (OPB);

(e) Delivery rate, i.e., estimated proportion of current year approved budgets actually disbursed during the year (D).

12. It is proposed that the maximum approval level (AL) for programming over a three-year period be set in December of each year, using a conservative estimate of income realization for the next three years, minus administrative costs for that same period. A very conservative estimate of income to be realized for the first year would be equal to the estimated income for that year, calculated on the basis of the pledging conference results and direct consultation with

donors. The estimate for the second year would be equal to 50 per cent of the estimated income of the first year while the estimate for the third year would be equal to 25 per cent of the estimated income of the first year (i.e., 50 per cent of the estimate for the previous year).

$$AL = (1+0.5+0.25) \times I-AB$$

If the income stream were to become more diverse and hence less dependent on a small group of donors, the amount of resources in future years that could be programmed could be increased from the present coefficients for the second and third years. The present levels represent a very conservative approach, consistent with the existing characteristics of the donor base. As conditions change, UNIFEM management, in consultation with Division of Finance, might reconsider the income estimates to be used, and present them to the Executive Board for consideration.

13. The amount available for total new approvals over the programme period is obtained by subtracting the total value of the budgets of ongoing projects for present and future years from the maximum approval level. The operational reserve (OR) would be set at the annual average expenditure over the programming period, i.e., one third of the maximum programme approval level times the estimated delivery rate.

$$OR = AL/3 \times D$$

14. The programme expenditure ceiling (EC) for the current year would be set so as not to exceed the total estimated resources available for that year (balance of general resources brought forward from the previous year plus estimated income) minus administrative costs. As the operational reserve level will fluctuate with changes in the approval levels, any additions or reductions to the reserve must also be taken into account in determining the programme expenditure ceiling. This ceiling would therefore be calculated as:

$$EC = B + I - AD +/- \text{changes to the OR}$$

The annual ceiling for new project budgets approvals (AC) in the present year is set on the basis of this expenditure ceiling by:

(a) Subtracting the budgets of ongoing projects for the current year, including amounts rephased from the previous year (OPB); and

(b) Taking into account the estimated delivery rate of UNIFEM (80 per cent) and consequently adjusting the project budget approval ceiling upwards to allow as much programming as possible, without exceeding available resources.

$$AC = 1/D \times \{EC-(OPB)\}$$

15. As stated above, the UNIFEM operational reserve will serve two main purposes: (a) to cover any short-term shortfalls between expenditures and liquidity from month to month and (b) to provide a hedge against downward income fluctuations from year to year. It is proposed that the following procedure be

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adopted. UNIFEM will monitor the operational reserve and report on it quarterly to the Office of the Administrator and Director of the Bureau for Finance and Administration. If it appears that the level of the reserve cannot be maintained at the close of the year, the Administrator will inform the Executive Board, stating the reasons justifying the use of the reserve and the steps that UNIFEM intends to take to address the problem. The functioning of the partial funding system, including the operational reserve level, will be the subject of a management review by UNIFEM and DOF every December. The appropriate levels for the coming years will be determined at that time.

VI. OPERATIONAL IMPLICATIONS

16. The operational implications for the approach proposed for 1997 are as follows: Given estimated income for 1997 of $13 million, maximum approval level for 1997 would be $13.2 million (1.75 x 13 - 3 x 3.2 = 13.2). The operational reserve would be $3.5 million (13.2/3 x .8). In 1997, the programme expenditure ceiling would be $10.1 million (0.8 + 13 - 3.2 -.5). Since UNIFEM will have $4.7 million in budgets of ongoing projects, the maximum ceiling for new project approvals will be $8.5 million (13.2-4.7) while the ceiling for new project budgets in 1997 will be $6.8 million (1.25(10.1 - 4.7). Given a delivery rate of 80 per cent, this level of programming, plus the budgets of ongoing projects, will not exceed the expenditure ceiling of $10.1 million for 1997. It is anticipated that there will be a fund balance at the end of 1997 of approximately $1 million. A resource planning table for 1996-1999 based on this approach is contained in the annex.

17. The Executive Board may wish to:

endorse the methodology for determining project approval and operational reserve levels for the United Nations Development Fund for Women under the partial funding modality.

Annex

Table 1. RESOURCE PLANNING TABLE FOR UNIFEM, 1996-1999

(In millions of United States dollars)

	1996	1997	1998	1999
I. AVAILABILITY OF RESOURCES				
A. Resources from previous year	4.1	0.8[a]	0.9[a]	0.8[a]
B. Resources made available during the year				
Voluntary contributions	12.7	12.6	13.0	13.0
Cost-sharing	N/A	N/A	N/A	N/A
Donations	0.2	0.2	0.2	0.2
Interest and other income	0.3	0.2	0.2	0.2
	13.2	13.0	13.4	13.4
Total available resources	17.3	13.8	14.3	14.2
II. UTILIZATION OF RESOURCES				
A. Resources committed				
Project expenditure ceiling[b]	10.3	9.2	10.1	10.3
Administrative budget	3.2	3.2	3.2	3.2
	13.5	12.4	13.3	13.5
B. Increase (decrease) in operation reserve	3.0	0.5	0.2	___
Total utilization of resources	16.5	12.9	13.5	13.5
III. FUND BALANCE AT THE YEAR END (I-II)[c]	0.8	0.9	0.8	0.7

[a] Exclusive of operational reserve.

[b] Includes reimbursement of programme support costs.

[c] Fund balance consists of available resources exclusive of the operational reserve.

Table 2. OTHER FINANCIAL INDICATORS 1996-1999

(In millions of United States dollars)

	1996	1997	1998	1999
I. PROJECT BUDGETS LIMITS				
A. Budget ceiling for approved projects[a]	13.6	13.2	13.9	13.9
B. Budgets of ongoing projects for the current year (including rephased budgets)	7.6	4.7	4.0	3.8
C. Amount available for new project budgets	6.0	8.5	9.9	10.1
II. CEILING FOR NEW PROJECTS BUDGETED DURING THE YEAR	6.0	6.8	8.6	9.0
III. TOTAL CURRENT YEAR PROJECT BUDGETS[b]	13.6	11.5	12.6	12.8
IV. OPERATIONAL RESERVE[c]	3.0	3.5	3.7	3.7
V. MAXIMUM DELIVERY RATE	75.7	80.0	80.0	80.0
Annual project expenditures as percentage of annual project budgets.				

[a] AL = 1.75 x total available resources minus 3 years administrative budget.

[b] IB + II.

[c] Total approved budget ceiling divided by 3 x delivery rate.